

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ottawa County Insurance Authority		County Ottawa	
Audit Date 12/31/04		Opinion Date 4/15/05		Date Accountant Report Submitted to State: 4/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

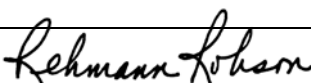
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA				
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI	Zip 48605
Accountant Signature 				

COMPREHENSIVE ANNUAL FINANCIAL REPORT

of

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY



West Olive, Michigan

For The Year Ended December 31, 2004

BOARD OF DIRECTORS

2004

Alan Vanderberg
Mary Richardson
Roger Rycenga
Gordon Schrotenboer
Jack Smant
Dennis Swartout



OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

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INTRODUCTORY SECTION



Ottawa County, Michigan Insurance Authority

12220 Fillmore Street, Room 331, West Olive, Michigan 49460

(616) 738-4856

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April 15, 2005

Board of Directors

Ottawa County, Michigan Insurance Authority

12220 Fillmore Street, Room 331

West Olive, MI 49460

Board of Directors:

The Comprehensive Annual Financial Report of the Ottawa County, Michigan Insurance Authority (the "Insurance Authority" or "Authority"), for the year ended December 31, 2004 is hereby respectfully submitted. This report was audited by the Insurance Authority's independent certified public accountants. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Insurance Authority. We believe the data, as presented, are accurate in all material respects, that it is presented in a manner designed to set forth fairly the financial position and results of operations of the Insurance Authority as measured by the financial activity of its various membership years, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Insurance Authority's financial affairs have been included.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

REPORTING ENTITY AND ITS SERVICES

The Ottawa County, Michigan Insurance Authority is an organization of governmental unit agencies formed as a legal entity under State statutes that authorize local units to create such an entity to meet their risk management needs. Specifically, the Insurance Authority administers a program of self-funding and commercial insurance in the areas of property and liability as well as providing for support services such as: claims/litigation administration and management, loss control services and training, risk management statistical information, and financial reporting services for its members. The Insurance Authority began its operation on October 24, 1990 with two initial members, the County of Ottawa and the Ottawa County Building Authority; as of December 31, 2004 no additional members have been added.

The Board of Directors is the governing body of the Insurance Authority and manages its operations. The Board is comprised of the following persons: the Ottawa County Treasurer, the Chairperson of the Ottawa County Board of Commissioners, the Chairperson of the Ottawa County Board of Commissioners standing committee in charge of finances, a member-at-large from the Ottawa County Board of Commissioners, the Ottawa County Administrator, and an elected or appointed official from each participating public entity except Ottawa County.

The Insurance Authority has the following powers pursuant to the intergovernmental agreement: to sue and be sued; to make contracts; to hold and dispose of real and personal property; to borrow money, contract debts, and pledge assets in the name of the Insurance Authority; to appoint employees or contract with other individuals or entities, including a participating public entity, for personnel services; and to do any other acts necessary or appropriate in order to effectuate the purposes of the agreement.

The Insurance Authority reporting entity includes all activities (operations of its administrative staff, officers, executive board and board of directors as they relate to the Insurance Authority) considered to be part of (controlled by or dependent on) the Insurance Authority. This includes the financial activity relating to all of the membership year pools of the Insurance Authority. The Insurance Authority does not have oversight responsibility for any other governmental entity.

ECONOMIC CONDITION AND OUTLOOK

The labor market information for January 2005 and January 2004 showed similar unemployment rates of 6.3 percent and 6.4 percent, respectively. The reason Ottawa County has not shown the economic recovery of other communities in the country is due to the strong manufacturing presence. Manufacturing is the largest employing sector of Ottawa County and represented approximately 39 percent of all private employment in 2003. This sector lost 5,524 jobs between 2000 and 2003. Within Ottawa County's manufacturing sector, the office furniture industry has been continually downsizing. Between 2000 and 2003, this industry lost 2,316 jobs. Also during this period, employment in transportation equipment (automotive components) manufacturing decreased by 1,829 jobs. Further, the fabricated metals group, which includes tool and die makers, lost 1,029 jobs. Collectively, the job loss in these three industries accounted for 94 percent of the total manufacturing job loss in Ottawa County between 2000 and 2003.

The services-related sector is the second largest sector behind manufacturing with about 30 percent of all private jobs in Ottawa County in 2003. Collectively, it lost 2,393 jobs between 2000 and 2003. Retail trade, the third largest sector with 11 percent of the County's jobs in 2003, also experienced a decrease in jobs (1,435 jobs) during this period.

However, not all economic sectors experienced declines. Employment in the wholesale trade, transportation and warehousing, information, finance and insurance, and the real estate sectors each gained over the period, collectively by 836 jobs. Overall, total private employment in Ottawa County declined by 8,660 jobs or 8.2 percent between 2000 and 2003.

State and National Economic Comparison

In comparing the local labor market statistics with state and national averages, Ottawa County's overall economic performance has been better than that of the State of Michigan and about equal to that of the nation. Ottawa County's average annual unemployment rate of 5.5 percent for 2004 was much less than Michigan's rate of 7.1 percent and equal to the national rate of 5.5 percent. Ottawa County's unemployment rates have been consistently under the State's averages by one to one and one half percentage points for each of the last five years. Between 2000 and 2002, Ottawa County's unemployment rate was less than the U.S. average; then for the last two years, Ottawa County's rate has mirrored the national rate.

Local Economic Impacts

With a large share of Ottawa County's total employment in manufacturing and its largest concentration of manufacturing employment in transportation equipment, Ottawa County may continue to experience further declines in employment and higher unemployment rates as a result of the escalation in the outsourcing of low-tech, labor intensive manufacturing work. A move by one firm can have a ripple effect influencing other manufacturing firms in the supply chain to relocate as well. The relocation of U.S. firms to foreign soil generally means the permanent displacement of workers from those manufacturing jobs. The loss of manufacturing jobs has an effect on employment in other sectors of the local economy as well. For every job lost in manufacturing, several other jobs will be at risk in other economic sectors. This globalization trend is dramatically reducing employment within America's manufacturing centers.

Technology is another factor hampering the growth in manufacturing employment. Companies are achieving greater production outputs while maintaining high quality with fewer workers by utilizing the latest machinery and equipment, and automating production. Productivity gains have made manufacturing firms more profitable and competitive, but have reduced the need for hiring more workers to meet the increased demands. The current recovery of the U.S. economy has been termed a "jobless recovery."

However, there are many reasons to be optimistic. In 2003, manufacturing jobs comprised about 20 percent of all private employment in the State of Michigan, compared to a 39 percent share in Ottawa County. While the proportion of State and national manufacturing employment had been shrinking over time, until recently Ottawa County's manufacturing base had been growing. The characteristics that have contributed to a healthy economy in Ottawa County include a spirit of entrepreneurship, pro-business attitudes, local governmental cooperation, innovation, high productivity and a strong work ethic. Because of its strong work ethic, Ottawa County has traditionally had a low percentage of organized labor.

Another characteristic of Ottawa County's economy contributing to its overall relative health is diversification, both across sectors and within the manufacturing sector. Within manufacturing there is diversification with employment spread among seven major groups. They include transportation equipment at 22 percent, furniture at 17 percent, fabricated metals at 11 percent, electronics at 8 percent, food processing at 8 percent, machinery at 7 percent, and plastic products at 4 percent.

Collectively, employment in these seven manufacturing groups represented about three quarters (77 percent) of all manufacturing employment in Ottawa County in 2003.

In addition to having a strong manufacturing base, Ottawa County's economy is also based in agriculture, tourism and recreation. Ottawa County has the distinction of being ranked as the number one county in the State of Michigan in terms of the market value of all agricultural products sold. Tourism and recreation thrives largely because of Ottawa County's many miles of Lake Michigan shoreline and ports in the Grand Haven and Holland areas.

While the size of Ottawa County's civilian labor force has remained constant over the last few years, Ottawa County's population has increased. The U.S. Census Bureau reported that Ottawa County's total population increased by 11,077 residents or 4.6 percent from 238,314 in 2000 to 249,391 in 2003. Ottawa County's growth in job opportunities over the long-term has fueled its continual growth in population. A static or declining job market will likely slow down the future rate of population growth. There may be less in-migration and possibly more out-migration.

As Ottawa County's population has grown, so has its residential housing, especially over the last few years. According to the Census, there were 86,858 total housing units located throughout Ottawa County in 2000. Fueled by low mortgage rates, approximately 8,348 single-family units and 2,599 multiple-family units were constructed between 2000 and 2004. The estimated value of this new residential development in Ottawa County was over \$ 1.4 billion.

Local Economic Outlook

Looking ahead at Ottawa County's economy in the next two years, Ottawa County could continue to perform in the same relationship that it has over the past several years with the State and national economies. Therefore, the economic outlook forecasts for these larger areas will shed light on Ottawa County's economic outlook. According to the Senate Fiscal Agency's report, Michigan's Economic Outlook and Budget Review, dated January 10, 2005, both the U.S. and Michigan economies are expected to continue growing in 2005 and 2006. Michigan's job growth and personal income growth are expected to remain below the national averages. Michigan's sectors expected to exhibit the largest gains in employment (services and trades) generally pay wages below those in the slowest growing sectors.

Ottawa County's annual average unemployment rate could continue at 5.5 percent in 2005 and increase to 5.7 percent in 2006. A contrasting scenario for Ottawa County's economic outlook is that there will be deeper structural changes occurring in Ottawa County's economic base with low-tech manufacturing employment continuing to decline due to more globalization. Unemployment rates in Ottawa County could exceed both the State and national averages. However, if expansions in employment continue in the growing sectors including wholesale trade, transportation and warehousing, information, finance and insurance and real estate, that would help compensate for the lost jobs in manufacturing.

Regardless of State and national economic conditions, there is confidence that Ottawa County's economy with its strengths in entrepreneurship, pro-business attitudes, local governmental cooperation, innovation, high productivity and strong work ethic will be stable in the years ahead.

MAJOR INITIATIVES

The Authority assumes financial and operational responsibilities for all risk assumption, risk management, and insurance coverage matters for the County of Ottawa, including its constituent departments and agencies, and the Ottawa County Building Authority. By contract with the Authority, the County, through its Administrative Services Department, has the primary responsibility for the day-to-day risk and insurance management functions of the Insurance Authority, so as to preserve human, physical, natural, and financial resources.

The Authority contracts with a risk management consultant to assist with indemnification, evaluation, and reduction of exposures to risk, as well as all other risk management and insurance functions. Legal counsel, both independent and County civil counsel, provide the claim defense when the Insurance Authority is responsible for defense, and supervise the defense provided by insurers when an insurer has the right and duty to defend a claim. Counsel also reviews Authority policies and procedures so as to provide appropriate protection to the Authority and its participants, and provides periodic training sessions to County employees in order to reduce exposure to risk.

It is a standard requirement of all vendors and contractors doing business with Ottawa County or the Building Authority to provide evidence of insurance in accordance with specified requirements, as well as broad indemnification. In this way, liability arising out of the acts, errors, or omissions of others is not a primary financial responsibility of the Insurance Authority.

The hard market continued into early 2004, which kept premiums at or near their highest levels since the formation of the Authority. Later in the year, there was clear evidence of softening in some lines, which should be to the Authority's advantage in the next few years. **Excess Liability** coverage remained difficult to find, at any price. The Authority was able to find a total of \$10,000,000 in limits excess of the \$1,000,000 that it assumes and the first \$1,000,000 excess layer. While there was some interest in additional limits, such limits would not cover all of the exposures covered in the first \$10,000,000 of excess limits; the Authority decided to continue with its program of \$10,000,000 in excess limits only.

During the course of the year, the Authority reviewed its **Professional Liability** coverage arrangements for employed medical professionals. Primary commercial insurance for employed nurses and psychologists had been discontinued, with the risk covered under the Authority's **Excess Liability** insurance arrangements. Coverage for the Health Department Medical Director is now provided without excess commercial insurance, and the Authority has studied the possibility of providing similar coverage to psychiatrists employed by Community Mental Health. The primary advantage of this arrangement would be unity of defense for both the County and the employed psychiatrists.

Commercial insurance remains in place for **Property** (including **Boiler and Machinery**), **Automobile Liability** and “**No-Fault**,” **General/Law Enforcement/Public Officials Liability**, and **Crime**. Each line of insurance, which is purchased commercially, has a deductible or self-insured retention, which the Authority covers.

Further, the Authority assumes responsibility for those risks which are either uninsurable or which are insurable at comparatively high premiums, such as gradual pollution, and for risks which are excluded by the insurance policies that it purchases, such as damage to pavements and roadways or mysterious disappearance.

Insurance coverage is purchased for those risks where the premiums are projected to be significantly lower over time than the cost of expected losses, where losses are too infrequent for any accurate projection, or where the Authority desires to control the claim defense process.

All claims brought against the County or the Building Authority, and all incidents occurring within their jurisdictions, whether against a commission, board, elected/appointed official, employee, or volunteer, are appointed to the Insurance Authority in accordance with its reporting procedure. The claim/incident is processed and, if appropriate, forwarded to the Authority’s legal counsel or insurer for investigation or establishment of an open claim reserve. At each Insurance Authority Work Group meeting, reports of claims or incidents are reviewed, as are reserves for open claims and the long-term claim history. Settlement of any claim and preferred handling of any lawsuit or potential lawsuit occurs after consultation with the Insurance Authority’s Work Group and/or the appropriate insurance company.

The Authority continually reviews and considers alternatives to some or all of its risk financing and control program. As the commercial insurance market softens, there is less economic impetus to continue to assume more risk. However, there are many issues that the Authority considers when deciding whether to offer additional coverage to its members. In some cases, there are factors that far outweigh cost in making these decisions. The Authority Work Group continues its comprehensive review of exposures and will present appropriate recommendations to the Authority for its consideration.

Safety and loss prevention programs are performed in conjunction with the Ottawa County Administrator’s Office, risk management consultant, legal counsel and insurers. Each County department is expected to conduct its operation in a responsible and safe manner.

OTHER INFORMATION

Independent Audit

Rehmann Robson, independent certified public accountants, provides an objective, independent review of the fairness of the Authority's reported financial position and results of operations. Its audit includes the auditing procedures that it deems necessary to express an opinion as to the fairness of the financial statements. Its unqualified opinion on the Authority's financial statements is included in the financial section of the report.

In addition, Financial Risk Analysts, LLC, provides independent actuarial services that estimate the liabilities recorded as outstanding claim reserves.

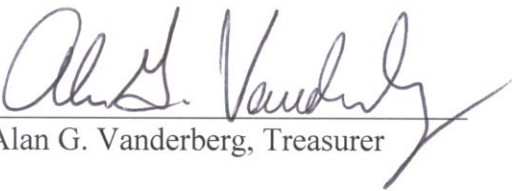
Acknowledgments

Our sincere appreciation is expressed to members of the Ottawa County staff for their assistance in preparing this report.

Our appreciation is also extended to each member and alternate of the Board of Directors for his or her commitment to risk management and intergovernmental risk pooling.

Respectfully submitted,

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY



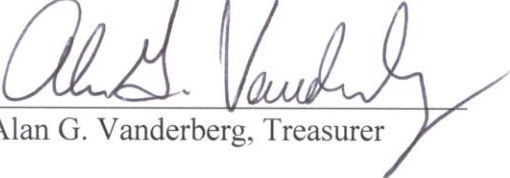
Alan G. Vanderberg, Treasurer

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Responsibility for the integrity of the financial data presented rests with the Ottawa County, Michigan Insurance Authority (the “Authority”). We believe the data to be accurate in all material aspects. These financial statements are prepared in accordance with generally accepted accounting principles applicable to government and Michigan State Statutes.

The Authority maintains a system of internal controls to provide reasonable assurance that the books and records reflect authorized transactions of the Authority.

Rehmann Robson, independent certified public accounts, has audited the accompanying financial statements, and the supplemental financial information has been subjected to the auditing procedures applied in its audit. Rehmann Robson's report appears just prior to the financial statements.



Alan G. Vanderberg, Treasurer

FINANCIAL SECTION



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

April 15, 2005

Ottawa County, Michigan
Insurance Authority
West Olive, Michigan

We have audited the accompanying basic financial statements of the **OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY**, a component unit of Ottawa County, as of December 31, 2004 and 2003, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Ottawa County, Michigan Insurance Authority** as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such schedules have been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly presented in all material respects in relation to the financial statements taken as a whole.

We did not audit the data in the introductory section of this report and, therefore, express no opinion thereon.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of the *Ottawa County, Michigan Insurance Authority*, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vii of this report.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$3,222,615 (*net assets*). All of this amount is unrestricted and may be used to meet the Authority's ongoing obligations.
- The government's total net assets increased by \$668,727.
- The Authority's investment balance increased by \$11,872

Overview of the Financial Statements

Fund type. The Authority has been established as an internal service proprietary fund type of the primary government, Ottawa County, to account for and allocate costs internally among the County's various functions. Specifically, the Authority accounts for the general, automobile and property liability of the County. There are three statements included in the Authority's basic financial statements.

The *statements of net assets* present information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Authority's financial position is improving or deteriorating.

The *statements of revenues, expenses and changes in net assets* present information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *statements of cash flows* present information showing the inflows and outflows of cash during the year. Accordingly, only transactions that affect the Authority's cash account are reported. The statement of cash flows assists the reader in determining the liquidity of the entity.

These statements can be found on pages 8-10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 11 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information*. This is limited to schedules of claims development, unpaid claims liabilities, investments, changes in net assets, and a member growth analysis. These schedules can be found beginning on page 19 of this report.

FINANCIAL MANAGEMENT AND CONTROL

The 2004 Comprehensive Annual Financial Report reflects two years of Authority operations.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, issued in November 1989, provides accounting and financial reporting guidance for risk financing and insurance related activities for state and local governmental entities, including public entity risk pools. In February 1996, GASB No. 30, *Risk Financing Omnibus*, was issued which amended certain provisions of GASB No. 10. In March 1997, GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, was issued, which also amended certain provisions of GASB No. 10.

These financial statements have been prepared in accordance with GASB No. 10, as amended by GASB No. 30 and GASB No. 31. In addition, minor adjustments have been made to accommodate the implementation of GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and GASB No. 40 - *Deposit and Investment Risk Disclosures*.

Fund Accounting

The Authority uses a fund (i.e., a separate accounting entity with a self-balancing set of accounts) to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Basis of Accounting

The Authority's operating fund, an internal services fund, is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included on the statement of net assets. Internal service fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Budgetary Control

A detailed budget is presented to the Authority for approval on an annual basis.

Financial Analysis

As the following table demonstrates, the Authority's assets exceeded its liabilities by \$3,222,615 at December 31, 2004, which was a 26.2 percent increase. The entire balance of the net assets is unrestricted and may be used to meet the Authority's ongoing obligations.

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Current assets				
Investments	\$ 11,332,876	\$ 11,144,638	\$ 188,238	1.7%
Restricted investments	5,261,076	5,437,442	(176,366)	-3.2%
Cash and cash equivalents	1,453,801	663,323	790,478	119.2%
Other assets	<u>245,046</u>	<u>241,321</u>	<u>3,725</u>	1.5%
Total assets	<u>18,292,799</u>	<u>17,486,724</u>	<u>806,075</u>	4.6%
Current liabilities				
Unpaid claims liabilities	10,461,453	10,363,283	98,170	0.9%
Due to Ottawa County	<u>4,608,731</u>	<u>4,569,553</u>	<u>39,178</u>	0.9%
Total liabilities	<u>15,070,184</u>	<u>14,932,836</u>	<u>137,348</u>	0.9%
Net assets - unrestricted	<u><u>\$ 3,222,615</u></u>	<u><u>\$ 2,553,888</u></u>	<u><u>\$ 668,727</u></u>	26.2%

Revenues: Revenues totaled \$2,174,496 for the year ended December 31, 2004. Overall, revenues decreased \$525,737 or 19.5 percent over the prior year. This resulted mostly from a more modest increase (\$78,808) in the change in the fair value of investments as compared to the change in the fair value of the previous year (\$793,585). However, investment revenue increased by \$121,770, or 26.3 percent.

<u>Revenue</u>	<u>2004 Amount</u>	<u>2004 % of Total</u>	<u>2003 Amount</u>	<u>2003 % of Total</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Loss premiums	\$ 1,506,570	69.4%	\$ 1,423,527	52.7%	\$ 83,043	5.8%
Investment revenue	584,068	26.8	462,298	17.1	121,770	26.3
Change in fair value of investments	78,808	3.6	793,585	29.4	(714,777)	(90.1)
Insurance recoveries and other revenue	<u>5,050</u>	<u>0.2</u>	<u>20,823</u>	<u>0.8</u>	<u>(15,773)</u>	<u>(75.7)</u>
TOTAL	<u><u>\$ 2,174,496</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 2,700,233</u></u>	<u><u>100.0%</u></u>	<u><u>\$ (525,737)</u></u>	

Expenses: Expenses (including the transfer to Ottawa County) totaled \$1,505,769 for the year ended December 31, 2004. This was a 58.8 percent decrease over the prior year. The change in unpaid claims liabilities was \$102,784 in 2004 as compared to \$2,107,400 in 2003. The transfer to the County, which varies depending on prior year chargeback amounts, decreased \$85,418.

<u>Expenses</u>	<u>2004 Amount</u>	<u>2004 % of Total</u>	<u>2003 Amount</u>	<u>2003 % of Total</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Claims and legal expenses paid	\$ 165,293	11.0%	\$ 220,748	6.0%	\$ (55,455)	(25.1%)
Increase in unpaid claims liabilities	102,784	6.8	2,107,400	57.6	(2,004,616)	(95.1)
Excess insurance expense	498,597	33.1	528,176	14.4	(29,579)	(5.6)
Risk management, administrative services and other expenses	186,734	12.4	169,929	4.6	16,805	9.9
Investment management fees	34,279	2.3	26,477	.7	7,802	29.5
Transfer to Ottawa County	<u>518,082</u>	<u>34.4</u>	<u>603,500</u>	<u>16.7</u>	<u>(85,418)</u>	<u>(14.2)</u>
TOTAL	<u>\$ 1,505,769</u>	<u>100.0%</u>	<u>\$ 3,656,230</u>	<u>100.0%</u>	<u>\$ (2,150,461)</u>	

The 2003 increase in the unpaid claims liability was the result of two matters. First, the exposure for general liability increased \$286,000. Second, the amount established for environmental compliance and remediation increased by \$1.8 million. Exposures were relatively steady in 2004.

Member Assessment and Base Allocation

The allocation of assessments among members is based upon an exposure base determined by operating expenditures and unit measurements for property/liability.

Pension Funds

The Authority has no employees; as such, it contracts for all administrative, accounting, and financial reporting services with Ottawa County and other outside entities.

Cash Management

The Authority's investment policy, approved by its Board of Directors, has the objective of pursuing an optimum rate of return without sacrificing safety on available assets not required for current operating needs while maintaining sufficient liquidity to meet cash flow needs. Specific investments are made in accordance with the Authority's investment policy, which conforms to the guidelines established for investment of public funds by the Michigan Revised Statutes.

As of December 31, 2004, the Authority's investment portfolio was comprised of the following:

<u>Instrument</u>	<u>Total Principal</u>	<u>Percent of Portfolio</u>
Debt Securities:		
U.S. Government	\$ 8,798,805	48.7%
Mortgage-backed	1,777,163	9.8
Corporate	677,302	3.8
Equity Securities:		
Common Stock	5,340,682	29.6
Cash	<u>1,453,801</u>	<u>8.1</u>
TOTAL	<u>\$ 18,047,753</u>	<u>100.0%</u>

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: June Hagan, Fiscal Services Director, 12220 Fillmore Street, Room 331, West Olive, Michigan, 49460.

BASIC FINANCIAL STATEMENTS

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

STATEMENTS OF NET ASSETS

December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Current assets		
Investments	\$ 11,332,876	\$ 11,144,638
Restricted investments	5,261,076	5,437,442
Cash and cash equivalents	1,453,801	663,323
Accrued interest receivable	136,756	125,848
Prepaid insurance	108,290	115,473
Total assets	<u>18,292,799</u>	<u>17,486,724</u>
Current liabilities		
Unpaid claims liabilities	10,461,453	10,363,283
Due to Ottawa County	4,608,731	4,569,553
Total liabilities	<u>15,070,184</u>	<u>14,932,836</u>
Net assets - unrestricted	<u>\$ 3,222,615</u>	<u>\$ 2,553,888</u>

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues		
Loss premium revenues	\$ 1,506,570	\$ 1,423,527
Insurance recoveries and other revenues	<u>5,050</u>	<u>20,823</u>
Total operating revenues	<u>1,511,620</u>	<u>1,444,350</u>
Operating expenses		
Claims and related expenses		
Claims and legal expenses paid	165,293	220,748
Increase in unpaid claims liabilities	102,784	2,107,400
Excess insurance expense	498,597	528,176
Risk management and other expenses:		
Risk management, administrative services and other expenses	186,734	169,929
Investment management fees	<u>34,279</u>	<u>26,477</u>
Total operating expenses	<u>987,687</u>	<u>3,052,730</u>
Operating income (loss)	<u>523,933</u>	<u>(1,608,380)</u>
Nonoperating revenues		
Investment revenue	584,068	462,298
Change in fair value of investments	<u>78,808</u>	<u>793,585</u>
Total nonoperating revenues	<u>662,876</u>	<u>1,255,883</u>
Income (loss) before transfers	1,186,809	(352,497)
Transfer to Ottawa County	<u>(518,082)</u>	<u>(603,500)</u>
Change in net assets	668,727	(955,997)
Net assets, beginning of year	<u>2,553,888</u>	<u>3,509,885</u>
Net assets, end of year	<u><u>\$ 3,222,615</u></u>	<u><u>\$ 2,553,888</u></u>

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County STATEMENTS OF CASH FLOWS Years Ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Loss premiums collected	\$ 1,506,570	\$ 1,423,527
Insurance recoveries and other revenues collected	5,050	20,823
Custodial funds received	37,161	97,052
Claims and related expenses paid	(661,321)	(760,149)
Risk management and other expenses paid	(218,996)	(196,340)
	<hr/>	<hr/>
Net cash provided by operating activities	668,464	584,913
	<hr/>	<hr/>
Cash flows from noncapital financing activities		
Transfer to Ottawa County	(518,082)	(603,500)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of investments	(13,096,764)	(14,293,991)
Proceeds from sale and redemption of investments	13,163,700	13,475,363
Investment income received	573,160	490,551
	<hr/>	<hr/>
Net cash provided by (used in) investing activities	640,096	(328,077)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	790,478	(346,664)
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	663,323	1,009,987
	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 1,453,801	\$ 663,323
	<hr/>	<hr/>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 523,933	\$ (1,608,380)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Decrease in prepaid insurance	7,183	3,419
Increase in unpaid claims liabilities	98,170	2,092,756
Increase in due to Ottawa County	39,178	97,118
	<hr/>	<hr/>
Net cash provided by operating activities	\$ 668,464	\$ 584,913
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

NOTES to FINANCIAL STATEMENTS

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Ottawa County, Michigan Insurance Authority (the “Authority”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In November 1989, the GASB issued Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. GASB No. 10 establishes accounting and financial reporting standards for risk financing and insurance related activities for state and local governmental entities, including public entity risk pools. These financial statements have been prepared in accordance with GASB No. 10, as amended by GASB 30.

The more significant of the Authority’s accounting policies are described below.

Reporting Entity

The Authority was organized for the purpose of providing insurance coverage and risk management and related services to participating public entities pursuant to State of Michigan Act No. 36 of the Public Acts of 1988.

The Authority was formed by Ottawa County and the Ottawa County Building Authority, the original participating public entities. Additional public entities may be admitted by unanimous vote of all current participating public entities. Presently, no additional public entities have applied or been admitted for participation.

The Authority is governed by a board consisting of one appointed and four elected officials of Ottawa County and one elected or appointed official from each other participating public entity.

The Authority is a blended component unit of Ottawa County. Accordingly, the Authority’s financial statements are included in the County’s Comprehensive Annual Financial Report. The Authority is considered to be a component unit of the County because the County has the ability to significantly influence operations and has accountability for fiscal matters.

In 1992, the Authority issued its first indemnity contracts to participating public entities and, accordingly, began collecting premiums, processing and adjusting claims, and paying losses. Prior to 1992, the Authority’s activity was limited to investment of the original capital contributions from Ottawa County and recording related investment income and fees.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

Notes To Financial Statements

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's operating fund, an *internal service fund* (a type of proprietary fund), is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are member insurance premiums. Operating expenses include the cost of claims, risk management and administration. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by the Authority to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of money market mutual funds and other short-term investments with an original maturity of three months or less and are carried at cost, which approximates fair value.

Investments and Restricted Investments

The Authority's investments and restricted investments are stated at fair value which is determined as follows: (a) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates and (b) investments that do not have established market values are reported at estimated fair value.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between the Authority and Ottawa County for goods provided and services rendered. These receivables/payables are classified as "due from/to Ottawa County" on the statements of net assets.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

Notes To Financial Statements

Unpaid Claims Liabilities

The Authority records unpaid claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses, that have been reported but not settled, and of claims that have been incurred but not reported. Because actual claims costs depend on such complex factors as inflation, damage awards and changes in legal liability doctrines, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are (or will be) recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency and other economic and societal factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. DEPOSITS AND INVESTMENTS

The Authority's investments, including its cash and cash equivalents, are held in a trust account at a local bank. All of the Authority's investments comply with the rules and regulations of the Michigan Insurance Bureau.

For purposes of providing an indication of the assumed levels of custodial credit risk, investments are categorized as follows:

Category 1 - Investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Authority's name.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

Notes To Financial Statements

The Authority's cash in the amount of \$1,241,792 and \$1,134 at December 31, 2004 and 2003, respectively, was uninsured and uncollateralized. Its short-term investments in money market funds amounting to \$212,009 and \$662,189 at December 31, 2004 and 2003, respectively, are not subject to risk categorization. At December 31, 2004 and 2003, the Authority's remaining investments were all in Category 1.

The cost and estimated fair values of investments in debt and equity securities at December 31, 2004 and 2003, are summarized as follows:

	<u>Cost</u>	<u>Unrealized</u> <u>Gains</u>	<u>Losses</u>	<u>Fair</u> <u>Value</u>
<u>2004</u>				
Debt securities:				
U.S. Government	\$ 3,562,426	\$ 919	\$ 25,616	\$ 3,537,729
Mortgage-backed	1,678,357	107,450	8,644	1,777,163
Corporate	668,973	12,360	4,031	677,302
Equity securities:				
Common stocks	<u>4,354,134</u>	<u>998,544</u>	<u>11,996</u>	<u>5,340,682</u>
	<u>\$10,263,890</u>	<u>\$1,119,273</u>	<u>\$ 50,287</u>	<u>\$11,332,876</u>
<u>2003</u>				
Debt securities:				
U.S. Government	\$ 3,542,669	\$ 18,556	\$ 22,037	\$ 3,539,188
Mortgage-backed	1,291,881	126,101	2,281	1,415,701
Corporate	341,097	6,156	-	347,253
Equity securities:				
Common stocks	<u>4,835,107</u>	<u>1,072,436</u>	<u>65,047</u>	<u>5,842,496</u>
	<u>\$10,010,754</u>	<u>\$1,223,249</u>	<u>\$ 89,365</u>	<u>\$11,144,638</u>

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

Notes To Financial Statements

Net realized losses on the sale of debt securities for the years ended December 31, 2004 and 2003, were \$10,140 and \$ -0-, respectively. On the sale of equity securities, the net realized gains (losses) were \$382,990 and (\$41,185), respectively. The calculation of realized gains and losses is independent of the calculation of net change in the fair value of investments. Unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in the net change reported in the current and prior years.

As of December 31, 2004, the Authority had the following investments and maturities in debt securities (none of which are callable):

	<u>Cost</u>	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>		
			<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
2004					
U.S. treasuries	\$ 3,562,426	\$ 3,537,729	\$ 1,004,373	\$ 1,782,921	\$ 750,435
U.S. agencies	1,678,357	1,777,163	486,862	679,587	610,714
Corporate bonds	668,973	677,302	-	528,807	148,495
	<u>\$ 5,909,756</u>	<u>\$ 5,992,194</u>	<u>\$ 1,491,235</u>	<u>\$ 2,991,315</u>	<u>\$ 1,509,644</u>
2003					
U.S. treasuries	\$ 3,542,669	\$ 3,539,188	\$ 1,443,624	\$ 1,343,631	\$ 751,933
U.S. agencies	1,291,881	1,415,701	-	1,306,763	108,938
Corporate bonds	341,097	347,253	76,004	221,144	50,105
	<u>\$ 5,175,647</u>	<u>\$ 5,302,142</u>	<u>\$ 1,519,628</u>	<u>\$ 2,871,538</u>	<u>\$ 910,976</u>

Of the Authority's investments in the mortgage-backed bonds of U.S. agencies as of December 31, 2004, \$1,725,527 was rated AAA and \$51,636 was rated A by Standard & Poor's. The Authority's investments in corporate bonds were rated as follows:

Rated by Standard & Poor's:

AAA	\$ 51,686
AA-	48,686
A+	317,195
A	156,113
A-	49,646
	<u>623,326</u>

Rated by Moody's -

A1	<u>53,976</u>
	<u>\$ 677,302</u>

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

Notes To Financial Statements

3. RESTRICTED INVESTMENTS

In 1998, to comply with Michigan Insurance Bureau regulations, the Authority transferred certain investments – i.e., U.S. Treasury Notes – to the Michigan Department of Treasury as security for the benefit of the Authority's policyholders. As these investments mature, they are replaced with comparable investments to maintain a face value balance of \$5.0 million. Such investments held by the State Treasurer as of December 31, 2004 and 2003, are as summarized below.

<u>Description</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Face Value</u>	<u>Fair Value</u>	
				<u>2004</u>	<u>2003</u>
U.S. Treasury Notes	02/15/2007	6.250%	\$ 485,000	\$ 516,147	\$ 540,775
U.S. Treasury Notes	05/15/2007	4.375%	1,400,000	1,438,178	1,482,740
U.S. Treasury Notes	08/15/2007	6.125%	1,675,000	1,796,823	1,874,995
U.S. Treasury Notes	11/15/2008	4.750%	1,100,000	1,151,480	1,178,430
U.S. Treasury Notes	02/15/2012	4.875%	<u>340,000</u>	<u>358,448</u>	<u>360,502</u>
			<u>\$5,000,000</u>	<u>\$5,261,076</u>	<u>\$ 5,437,442</u>

4. UNPAID CLAIMS LIABILITIES

As discussed in Note 1, the Authority establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Authority during 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Unpaid claims and claim adjustment expenses at the beginning of the year	<u>\$10,363,283</u>	<u>\$ 8,270,527</u>
Incurring claims and claim adjustment expenses (undiscounted):		
Provision for insured events of the current year	1,655,863	1,225,971
Increase (decrease) in provision for insured events of prior years	<u>(1,544,021)</u>	<u>1,125,268</u>
Total incurred claims and claim adjustment expenses	<u>111,842</u>	<u>2,351,239</u>

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

Notes To Financial Statements

	<u>2004</u>	<u>2003</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	\$ 95,865	\$ 93,623
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(82,193)</u>	<u>164,860</u>
Total payments	<u>13,672</u>	<u>258,483</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u>\$10,461,453</u>	<u>\$10,363,283</u>

In 1996, upon advice of legal counsel and its actuary, the Authority established a liability for certain uninsured exposures (i.e., exposures excluded from commercially purchased policies and, generally, not subject to readily available policies in the market), including environmental impairment and remediation, employment relations, and defense of non-monetary claims. At December 31, 2004 and 2003, the amount of this liability, which is included in the totals above, was \$6,868,889 and \$6,841,431, respectively.

5. EXCESS INSURANCE

The following presents the Authority's per occurrence self-insured retentions:

<u>COVERAGE</u>	<u>Self-Insured Retention Per Occurrence</u>
General Liability, Public Officials E&O and Police Professional Liability	
4/1/01 - 3/31/05	\$ 1,000,000
4/1/94 - 3/31/01	500,000
4/1/93 - 3/31/94	250,000
General Liability	
4/1/89 - 3/31/93	\$ 250,000
Automobile Liability	
4/1/02 - 3/31/05	\$ 25,000

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

Notes To Financial Statements

<u>COVERAGE</u>	<u>Self-Insured Retention Per Occurrence</u>
<u>Automobile Physical Damage</u> 10/1/86 - 3/31/05	Unlimited
<u>Property</u> 4/1/02 - 3/31/05	\$ 50,000
4/1/01 - 3/31/02	25,000
4/1/93 - 3/31/01	5,000
<u>Medical Professional Liability</u> 4/1/03 - 3/31/05	\$ 1,000,000
4/1/93 - 3/31/03	500
4/1/91 - 3/31/93	250,000

6. PREMIUM DEFICIENCY

The Authority has determined that a premium deficiency did not exist at December 31, 2004 and 2003. The Authority considered anticipated investment income in making this determination.

7. CUSTODIAL FUNDS MANAGEMENT

Pursuant to an interpretation of State statutes by the Michigan Insurance Bureau (MIB), the Authority discontinued coverage of workers compensation claims effective January 1, 1996. The MIB allowed, however, that the Authority could continue to manage the monies of the County's self-insured workers compensation fund in a custodial capacity provided that it: (1) did not cover or process claims; and (2) maintained sufficient deposits and/or investments of such a character and level to otherwise comply with State investment statutes for local governments. The Authority complied with these stipulations for 2004 and 2003.

SUPPLEMENTAL SCHEDULES

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL CLAIMS DEVELOPMENT INFORMATION

	1986 to 1991 (A)	1992	1993	1994 (C)	1995	1996 (D)
Loss premium and investment revenues	\$ -	\$ 1,229,319	\$ 1,441,923	\$ 1,530,430	\$ 1,831,066	\$ 1,272,013
Estimated incurred claims and allocated loss adjustment expenses, end of policy year	1,070,247	455,251	349,515	794,982	799,613	2,643,981
Paid (cumulative) as of:						
End of policy year	252,746	23,521	21,375	98,563	41,243	61,374
1 year later	507,387	68,883	59,536	138,363	71,981	71,898
2 years later	656,630	73,381	71,570	137,679	97,801	117,670
3 years later	700,369	89,334	77,205	139,078	105,031	384,542
4 years later	722,260	94,217	83,526	140,038	150,782	385,509
5 years later	744,069	93,512	84,926	141,781	158,222	386,013
6 years later	764,453	93,512	84,926	143,526	158,222	385,883
7 years later	764,027	93,512	84,926	161,129	158,222	385,883
8 years later	764,027	93,512	84,926	161,129	158,222	385,883
9 years later	764,027	93,512	84,926	161,129	158,222	
10 years later	764,027	93,512	84,926	161,129		
11 years later	764,027	93,512	84,926			
12 years later	764,027	93,512				
13 years later	764,027					
Reestimated incurred claims and allocated loss adjustment expense:						
End of policy year	(B)	455,251	349,515	794,982	799,613	2,643,981
1 year later	1,070,247	388,570	570,120	636,861	578,395	2,543,055
2 years later	1,325,209	423,155	441,538	419,920	824,159	2,783,784
3 years later	1,049,161	323,678	270,749	346,321	391,195	2,275,298
4 years later	1,106,021	238,143	228,001	308,928	209,335	2,362,054
5 years later	1,009,591	207,629	84,926	157,588	158,222	2,276,525
6 years later	896,448	93,512	84,926	183,084	158,222	2,276,395
7 years later	764,027	93,512	84,926	162,955	158,222	2,276,395
8 years later	764,027	93,512	84,926	161,129	158,222	2,276,395
9 years later	764,027	93,512	84,926	161,129	158,222	
10 years later	764,027	93,512	84,926	161,129		
11 years later	764,027	93,512	84,926			
12 years later	764,027	93,512				
13 years later	764,027					
Increase (decrease) in estimated incurred claims and allocated loss adjustment expense from end of policy year	-	-	-	-	-	-

(A) Claims and loss adjustment expenses and payments for the six-year period prior to 1992, which was the first year that the Authority issued insurance contracts, are included for actuarial purposes in the calculation of total unpaid claims and loss adjustment expenses.

(B) Amount is not readily determinable.

-	-	(9,440)	(108,239)	(631,976)	(496,728)	(297,638)	-
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(D) Beginning in 1996, includes provision for certain uninsured exposures: environmental impairment, employment relations and defense of non-monetary claims and excludes workers compensation coverage.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULE OF UNPAID CLAIMS LIABILITIES
Years Ended December 31, 2004 and 2003

	<u>General Liability (A)</u>		<u>Auto Physical Damage</u>	
	<u>2004</u>	<u>2003</u>	<u>(C)</u>	<u>2004</u>
			<u>2004</u>	<u>2003</u>
Unpaid claims and claim adjustment expenses, beginning of year	<u>\$ 3,381,836</u>	<u>\$ 3,095,996</u>	<u>\$ 123,649</u>	<u>\$ 113,263</u>
Estimated incurred claims and claim adjustment expenses (undiscounted)				
Provisions for current year insured events	990,185	1,064,421	183,397	146,643
Increase (decrease) in provision for prior year insured events	<u>(1,478,120)</u>	<u>(740,362)</u>	<u>(235,794)</u>	<u>62,212</u>
Total estimated incurred claims and claim adjustment expenses	<u>(487,935)</u>	<u>324,059</u>	<u>(52,397)</u>	<u>208,855</u>
Payments				
Claims and claim adjustment expenses attributable to current year insured events	1,828	9,580	76,889	80,704
Claims and claim adjustment expenses attributable to prior year insured events	<u>61,792</u>	<u>28,639</u>	<u>(149,256)</u>	<u>117,765</u>
Total payments	<u>63,620</u>	<u>38,219</u>	<u>(72,367)</u>	<u>198,469</u>
Total unpaid claims and claim adjustment expenses, end of year	<u><u>\$ 2,830,281</u></u>	<u><u>\$ 3,381,836</u></u>	<u><u>\$ 143,619</u></u>	<u><u>\$ 123,649</u></u>

(A) Includes police and public officials liability coverage.

(B) Includes environmental impairment liability, employment relations liability and defense of non-monetary claims.

(C) The negative amount reported for prior year claims payments stems from difficulties encountered by the actuary in processing data from the Authority on a January-December period, rather than a April-March period as in prior years. As such, the actuary elected to exclude certain prior year payments from its claims development analysis.

Property & Crime		Medical Professional Liability		Uninsured Exposures (B)		Totals	
2004	2003	2004	2003	2004	2003	2004	2003
\$ 11,346	\$ 4,101	\$ 5,021	\$ 4,862	\$ 6,841,431	\$5,052,305	\$ 10,363,283	\$ 8,270,527
62,369	12,145	419,912	2,762	-	-	1,655,863	1,225,971
(8,962)	2,251	146,783	(2,603)	32,072	1,803,770	(1,544,021)	1,125,268
53,407	14,396	566,695	159	32,072	1,803,770	111,842	2,351,239
17,148	3,339	-	-	-	-	95,865	93,623
657	3,812	-	-	4,614	14,644	(82,193)	164,860
17,805	7,151	-	-	4,614	14,644	13,672	258,483
\$ 46,948	\$ 11,346	\$ 571,716	\$ 5,021	\$ 6,868,889	\$ 6,841,431	\$ 10,461,453	\$ 10,363,283

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULE OF INVESTMENTS - BONDS AND NOTES
December 31, 2004 and 2003

				2004			2003		
	Credit rating	Maturity	Interest rate	Face value	Cost	Fair value	Face value	Cost	Fair value
U.S. Government Securities									
U.S. Treasury Notes		05/31/04	3.250%	\$ -	\$ -	\$ -	\$ 400,000	\$ 409,469	\$ 403,624
U.S. Treasury Notes		11/15/04	5.875%	-	-	-	1,000,000	1,052,813	1,040,000
U.S. Treasury Notes		02/28/05	1.500%	1,000,000	998,398	999,300	-	-	-
U.S. Treasury Notes		05/15/05	6.500%	5,000	5,056	5,073	5,000	5,056	5,344
U.S. Treasury Notes		08/15/08	3.250%	55,000	54,890	54,744	-	-	-
U.S. Treasury Notes		11/15/08	4.750%	1,650,000	1,748,770	1,728,177	1,250,000	1,320,019	1,338,287
U.S. Treasury Notes		02/15/12	4.875%	710,000	755,312	750,435	710,000	755,312	751,933
				3,420,000	3,562,426	3,537,729	3,365,000	3,542,669	3,539,188
Mortgage-Backed Securities									
Federal Home Loan Mortgage	AAA	09/15/07	3.500%	100,000	102,833	100,281	100,000	102,833	101,719
Federal Home Loan Mortgage	AAA	01/15/12	5.750%	100,000	99,719	108,938	100,000	99,719	108,938
Federal National Mortgage Assn	AAA	03/15/05	3.875%	200,000	206,654	200,562	300,000	309,981	308,814
Federal National Mortgage Assn	AAA	07/15/05	7.000%	280,000	280,221	286,300	280,000	280,221	302,487
Federal National Mortgage Assn	AAA	06/15/09	6.375%	525,000	499,127	579,306	525,000	499,127	593,743
Federal National Mortgage Assn	AAA	09/15/12	4.375%	450,000	440,530	450,140	-	-	-
SLM Corporation	A	05/15/14	5.375%	50,000	49,273	51,636	-	-	-
				1,705,000	1,678,357	1,777,163	1,305,000	1,291,881	1,415,701
Corporate Securities									
Associates Corporation	A+	04/20/04	5.800%	-	-	-	75,000	74,965	76,004
Bell Atlantic Financial Services	A+	03/15/07	7.600%	50,000	55,729	54,130	50,000	55,729	56,622
General Electric Capital Corp.	AAA	06/15/07	5.000%	50,000	52,566	51,686	50,000	52,566	53,258
Boeing Capital Corporation	A	11/15/07	6.350%	50,000	53,207	53,449	50,000	53,207	55,073
Bear Stearns Companies, Inc.	A1	12/15/07	6.750%	50,000	55,528	53,976	50,000	55,528	56,191
J P Morgan Chase	A+	05/01/08	3.625%	50,000	49,092	49,645	-	-	-
Household Finance Corp.	A	06/17/08	6.400%	50,000	53,807	53,944	-	-	-
Associates Corporation	A+	11/15/08	6.875%	50,000	54,998	55,189	-	-	-
Internation Lease Finance	AA-	04/01/09	3.500%	50,000	47,394	48,686	-	-	-
John Deere Corporation	A-	01/13/09	3.750%	50,000	48,804	49,646	-	-	-
Target Corporation	A+	08/15/10	7.500%	50,000	57,464	58,456	-	-	-
IBM Corporation	A+	11/29/12	4.750%	50,000	49,102	51,054	50,000	49,102	50,105
Verizon Global Funding Corp.	A+	06/01/13	4.375%	50,000	45,508	48,721	-	-	-
Morgan Stanley	A	04/01/14	4.750%	50,000	45,774	48,720	-	-	-
				650,000	668,973	677,302	325,000	341,097	347,253
				\$ 5,775,000	\$ 5,909,756	\$ 5,992,194	\$ 4,995,000	\$ 5,175,647	\$ 5,302,142

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULES OF INVESTMENTS - COMMON STOCKS
December 31, 2004 and 2003

	2004			2003		
	Shares	Cost	Fair value	Shares	Cost	Fair value
Abbott Labs	-	\$ -	\$ -	1,400	\$ 65,992	\$ 65,240
Accenture Limited	-	-	-	2,650	44,411	69,748
Ace Limited	-	-	-	1,850	57,835	76,627
Aes Corporation	7,980	66,891	109,087	-	-	-
Affiliated Computer Services	1,735	85,072	104,430	-	-	-
Agilent Technologies	3,140	74,068	75,674	-	-	-
Alcon Incorporated	859	63,474	69,235	-	-	-
Allstate Corporation	1,860	81,820	96,199	-	-	-
Altera Corporation	-	-	-	2,950	55,571	66,818
American Express	1,890	94,014	106,539	-	-	-
American International Group Inc.	1,752	93,467	115,054	1,632	85,560	108,169
AmerisourceBergen Corporation	-	-	-	700	38,900	39,305
Amgen Incorporated	2,330	122,883	149,470	800	38,713	49,432
Anheuser Busch	-	-	-	1,100	57,092	57,948
Baker Hughes Incorporated	-	-	-	2,450	75,369	78,792
Bank New York Incorporated	-	-	-	1,850	72,716	61,272
Bank of America Corporation	3,275	124,911	153,892	1,300	91,725	104,559
Biogen Idec Incorporated	1,110	67,095	73,937	-	-	-
Cisco Systems	2,695	16,265	52,067	4,350	40,165	105,400
Citigroup Incorporated	3,295	129,769	158,753	3,650	147,052	177,171
Colgate-Palmolive Company	1,830	82,301	93,623	1,200	63,828	60,060
Constellation Brands	1,780	79,430	82,788	-	-	-
Dell Computer Corporation	3,880	120,010	163,503	3,050	85,839	103,639
Dean Foods	3,336	116,074	109,921	-	-	-
Devon Energy Corporation	2,930	88,478	114,036	-	-	-
EMC Corporation	-	-	-	7,150	84,609	92,378
Ebay Incorporated	1,280	102,296	148,915	-	-	-
Ecolab Incorporated	1,900	55,570	66,747	-	-	-
Electronic Arts	1,730	82,797	106,706	-	-	-
Emerson Electric Corporation	-	-	-	1,100	59,416	71,225
Equitable Resources	915	44,135	55,504	-	-	-
Exxon Mobil Corporation	2,660	102,968	136,352	3,100	118,814	127,100
Fedex Corporation	-	-	-	1,300	83,377	87,750
Fifth Third Bancorp	-	-	-	1,100	62,086	65,010
Forest Labs Incorporated	-	-	-	1,400	66,608	86,520

Continued...

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULES OF INVESTMENTS - COMMON STOCKS
December 31, 2004 and 2003

	2004			2003		
	Shares	Cost	Fair value	Shares	Cost	Fair value
Fox Entertainment Group	-	\$ -	\$ -	2,350	\$ 62,798	\$ 68,502
Freddie Mac	-	-	-	1,100	50,065	64,152
Freeport-McMoran	2,600	84,952	99,398	-	-	-
General Electric Company	4,905	148,098	179,032	4,650	147,336	144,057
Glaxo Wellcome	2,360	100,358	111,840	-	-	-
Global Sante Fe Corporation	-	-	-	3,050	83,743	75,732
Goldman Sachs Group Incorporated	1,090	91,315	113,404	900	72,933	88,857
Halliburton Company	-	-	-	2,400	64,320	62,400
Hewlett Packard Company	-	-	-	4,900	107,944	112,553
Hilton Hotels Corporation	-	-	-	4,600	63,688	78,798
Home Depot Incorporated	-	-	-	1,850	53,878	65,656
Intel Corporation	-	-	-	5,600	87,765	179,480
Illinois Tool Works	1,130	98,417	104,728	-	-	-
InteractiveCorp	-	-	-	1,600	56,909	54,288
International Business Machines	-	-	-	600	55,032	55,608
International Game Technology	2,675	97,809	91,966	-	-	-
Intuit Incorporated	-	-	-	1,050	40,620	55,503
J.P. Morgan Chase & Company	2,580	90,802	100,646	2,650	92,044	97,335
Johnson and Johnson	1,350	43,348	85,617	1,500	48,922	77,490
Johnson Controls Incorporated	1,270	66,486	80,569	-	-	-
Kohls Corporation	-	-	-	1,600	89,806	71,904
L-3 Communications	1,355	83,537	99,240	-	-	-
Lockheed Martin Corporation	-	-	-	1,950	101,602	100,230
Lowes Company Incorporated	1,690	73,649	97,327	950	29,988	52,621
Marriott International Incorporated	-	-	-	1,400	53,182	64,680
Medtronic Incorporated	-	-	-	1,100	20,233	53,471
Merrill Lynch & Company	1,935	83,941	115,655	1,850	72,189	108,502
Microsoft Corporation	5,130	100,628	141,883	7,200	153,716	197,064
Minnesota Mining & Manufacturing	1,525	109,252	125,157	1,300	81,981	110,539
Molex Incorporated	-	-	-	1,850	58,591	64,546
NII Holdings	2,700	93,714	128,115	-	-	-
Nextel Communications	1,730	41,016	51,917	-	-	-
Oracle Corporation	-	-	-	9,150	112,047	121,055
PMI Group	1,245	50,852	51,979	-	-	-
Pepsico Incorporated	3,315	162,397	173,043	1,850	80,438	86,247

Continued...

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULES OF INVESTMENTS - COMMON STOCKS
December 31, 2004 and 2003

	2004			2003		
	Shares	Cost	Fair value	Shares	Cost	Fair value
Pfizer Incorporated	3,300	\$ 40,497	\$ 88,737	7,140	\$ 149,385	\$ 252,256
Phelps Dodge Corporation	-	-	-	850	59,027	64,676
Praxair Incorporated	-	-	-	1,700	49,233	64,940
Procter and Gamble Company	-	-	-	1,400	90,310	139,832
Qualcomm Incorporated	-	-	-	650	25,114	35,055
Rohm & Haas Company	-	-	-	1,450	56,563	61,930
St Jude Medical Incorporated	-	-	-	950	54,245	58,282
Southwest Airlines	-	-	-	3,525	52,175	56,893
Staples Incorporated	-	-	-	2,750	54,228	75,075
Starbucks Corporation	1,870	74,515	116,613	-	-	-
Starwood Hotels	1,505	77,348	87,892	-	-	-
State Street Corporation	-	-	-	1,500	42,038	78,120
Stryker Corporation	-	-	-	1,000	66,925	85,010
Sungard Data Systems	-	-	-	2,850	70,737	78,974
Texas Instruments Incorporated	3,960	80,846	97,495	3,350	81,029	98,423
TJX Companies Incorporated	-	-	-	3,350	58,835	73,867
United Technologies Corporation	1,205	109,178	124,537	-	-	-
U.S. Bancorp	-	-	-	2,750	60,430	81,895
Verizon Communications	-	-	-	1,814	76,017	63,635
Viacom Incorporated	-	-	-	2,350	101,344	104,293
Wal Mart Stores Incorporated	1,890	77,761	99,830	2,150	91,518	114,058
Washington Mutual	1,635	64,219	69,128	-	-	-
Weatherford International	2,565	112,188	131,584	-	-	-
Wellpoint Health Networks Inc.	-	-	-	850	64,247	82,442
Wyeth Company	-	-	-	950	41,923	40,327
Yahoo! Incorporated	3,513	115,367	132,370	-	-	-
Yum Brands Incorporated	-	-	-	1,950	52,336	67,080
Zimmer Holdings	1,230	87,856	98,548	-	-	-
		<u>\$4,354,134</u>	<u>\$5,340,682</u>		<u>\$4,835,107</u>	<u>\$5,842,496</u>

Concluded

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL COMPARATIVE SCHEDULE OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS / RETAINED EARNINGS
Years Ended December 31, 2004 through 1995

	2004	2003	2002	2001
Operating revenues				
Loss premium revenues	\$ 1,506,570	\$ 1,423,527	\$ 1,193,767	\$ 1,009,968
Insurance recoveries and other revenues	5,050	20,823	30,590	7,485
Total operating revenues	1,511,620	1,444,350	1,224,357	1,017,453
Operating expenses				
Claims and legal expenses paid	165,293	220,748	186,485	194,977
Increase (decrease) in unpaid claims liability	102,784	2,107,400	1,522,515	901,570
Excess insurance expense	498,597	528,176	492,132	331,263
Risk management, administrative services and other expenses	186,734	169,929	174,852	152,321
Investment management fees	34,279	26,477	27,456	31,538
Total operating expenses	987,687	3,052,730	2,403,440	1,611,669
Operating income (loss)	523,933	(1,608,380)	(1,179,083)	(594,216)
Nonoperating revenues (expenses)				
Investment revenue	584,068	462,298	464,219	542,648
Change in fair value of investments	78,808	793,585	(1,207,063)	(560,286)
Total nonoperating revenues (expenses)	662,876	1,255,883	(742,844)	(17,638)
Income (loss) before transfers	1,186,809	(352,497)	(1,921,927)	(611,854)
Transfer to Ottawa County	(518,082)	(603,500)	(226,281)	(367,174)
Change in net assets	668,727	(955,997)	(2,148,208)	(979,028)
Net assets / retained earnings, beginning of year	2,553,888	3,509,885	5,658,093	6,637,121
Restatements [see notes below]	-	-	-	-
Net assets / retained earnings, end of year	\$ 3,222,615	\$ 2,553,888	\$ 3,509,885	\$ 5,658,093

Notes: The beginning retained earnings for 1996 was restated to exclude workers compensation coverage as directed by the State. Also, beginning in 1996 and for later years, the current activity excludes workers compensation coverage.

The beginning retained earnings for 1997 was restated for the adoption of GASB No. 31, which required unrealized gains and losses to be recognized in the operating statement. Beginning in 1997, the "change in fair value of investments" included realized and unrealized gains and losses. Prior to 1996, this caption included only realized gains and losses.

The beginning retained earnings for 2000 was restated for the adoption of GASB No. 33 and 34, which eliminated the reporting of contributed capital as a component of net assets (or equity) and required the reporting of such contribution transactions in the operating statement.

2000	1999	1998	1997	1996	1995
\$ 931,933 21,191	\$ 986,759 -	\$ 905,478 -	\$ 933,769 -	\$ 889,501 -	\$ 1,428,283 -
953,124	986,759	905,478	933,769	889,501	1,428,283
229,013	383,617	166,097	110,477	92,455	134,979
1,513,238	(482,545)	(69,754)	1,159,775	2,030,220	339,371
282,211	262,576	253,709	278,665	293,717	288,023
149,694	142,326	181,646	108,643	186,135	168,454
60,560	33,720	51,123	50,737	41,943	33,839
2,234,716	339,694	582,821	1,708,297	2,644,470	964,666
(1,281,592)	647,065	322,657	(774,528)	(1,754,969)	463,617
506,042	541,196	509,326	392,546	382,512	402,783
164,841	441,855	1,019,545	906,905	395,951	60,168
670,883	983,051	1,528,871	1,299,451	778,463	462,951
(610,709)	1,630,116	1,851,528	524,923	(976,506)	926,568
(480,893)	-	-	-	-	-
(1,091,602)	1,630,116	1,851,528	524,923	(976,506)	926,568
4,687,462	3,057,346	1,205,818	185,589	1,744,156	817,588
3,041,261	-	-	495,306	(582,061)	-
\$ 6,637,121	\$ 4,687,462	\$ 3,057,346	\$ 1,205,818	\$ 185,589	\$ 1,744,156

[1]

[1] Prior to 2000, immaterial insurance recoveries and other revenues were netted against claims and legal expenses paid.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULE OF MEMBER GROWTH ANALYSIS
Years Ended December 31, 2004 through 1995

	2004	2003	2002	2001
Total number of members	2	2	2	2
Total employees	950	927	910	895
Total annual payrolls	\$ 39,332,524	\$ 39,249,518	\$ 38,517,965	\$ 35,615,824
Total member premiums	\$ 1,506,570	\$ 1,423,527	\$ 1,193,767	\$ 1,009,968
Total number of claims	96	91	106	91
Total reported losses	\$ 268,077	\$ 2,328,148	\$ 1,790,002	\$ 1,063,640

(A) Beginning in 1996, includes provision for environmental impairment, employment relations and defense of non-monetary claims and excludes coverage for workers compensation.

2000	1999	1998	1997	1996	1995
2	2	2	2	2	2
873	798	767	740	744	723
\$ 33,710,764	\$ 31,346,149	\$ 30,777,799	\$ 28,826,214	\$ 24,153,606	\$ 23,970,068
\$ 931,933	\$ 986,759	\$ 905,478	\$ 933,769	\$ 889,501	\$ 1,428,283
69	81	78	64	63	59
\$ 1,718,699	\$ (88,146)	\$ 85,071	\$ 1,252,812	\$ 2,118,997	\$ 470,292
				(A)	